# The Survivor Benefit Plan

## (SBP)

# GOAL

***CHANGE....***

**MISINFORMATION**

**BY**

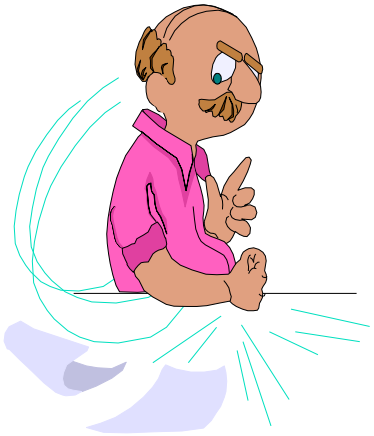
***MISINFORMED***

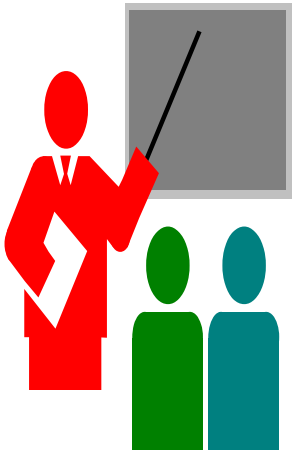
**PEOPLE**

***INTO.....*** **INFORMATION**

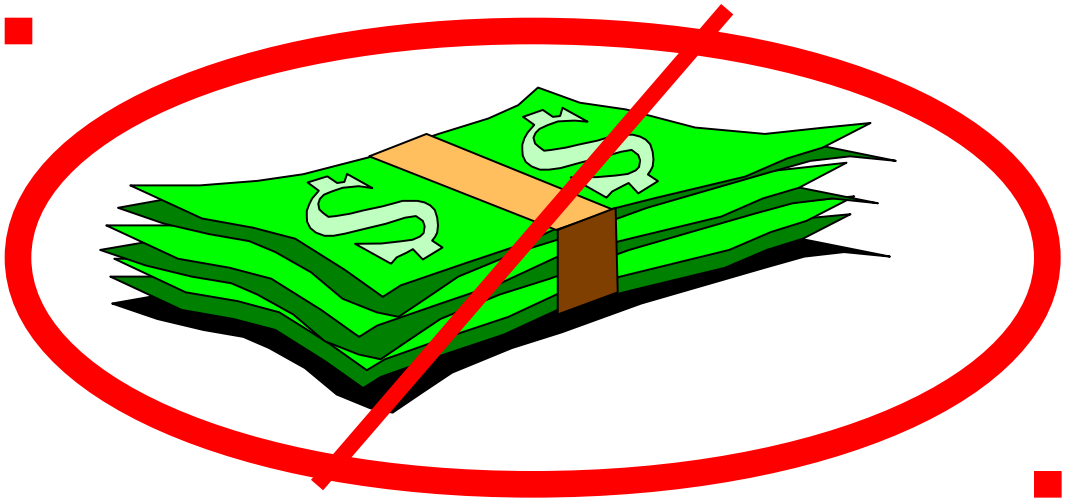
**BY**

***INFORMED*** **PEOPLE**





# RETIRED PAY STOPS



## WITH THE DEATH OF THE RETIREE!

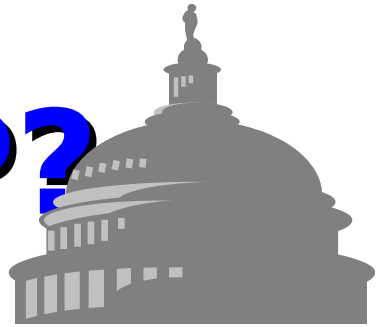
# Average Number of Years Female Spouses Outlive Male Retirees

**10% - 34 years**

**20% - 29 years**

**30% - 15 years**

# WHAT IS SBP?

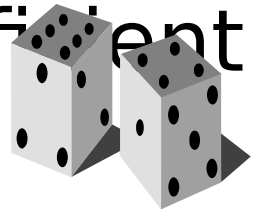


- Enacted by Congress in 1972
- Sole means for retiree to continue a portion of retired pay to survivors

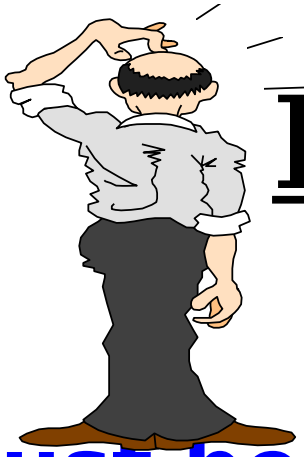
- Coverage is free while on active duty
- Decision at retirement -- begin to share cost

# Are You Risk Averse?

| ***Weigh:*** | ***Against:*** |
| --- | --- |
| Higher risk of leaving your survivor may | Smaller risk that your loved ones with |
| insufficient income | not get back every cent paid in premiums |



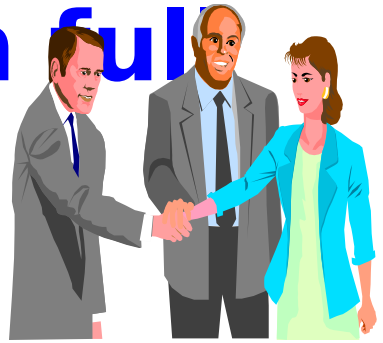
# ABOUT ELECTIONS



- **Must be made *before* retirement**
- **Certain elections need concurrence**
- **Generally irrevocable**
  **-- may be cancelled with spouse concurrence between months 25-**

# A *"JOINT"* Decision For Married Soldiers Who . . . .

- **Decline coverage**
- **Cover less than full retired pay**
- **Elect "child only"**



# Termination Feature

- can terminate SBP after 2 years of ret.
- one-time, one-year window between 25th and 36th mo. after start of pay
- spouse concurrence required
- barred from future enrollment
- no refund of past premiums
- why the law change?

--acknowledges need for flexibility

# Six Election Options

- Spouse Only
- Spouse & Child(ren)
- Child(ren) Only
- Former Spouse Only
- FS & Child(ren)
- Insurable Interest

# Spouse Option

- currently provides annuity of:
  - 55% (pre-62) of “base amount”
  - 35% (post-62)
- post-62 annuity will be incrementally increased, reaching 55% 1 Apr 08
- annuity paid forever (unless remarriage occurs pre-55)
- if remarriage ends, annuity reinstated
- increased by annual COLA

# Phased Increase of Post 62 Spouse Annuity

- 1 Oct 05, increases to 40%
- 1 Apr 06, increases to 45%
- 1 Apr 07, increases to 50%
- 1 Apr 08, increases to 55%

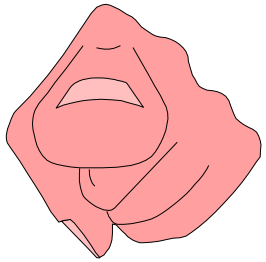
# Spouse & Child(ren) Option

- **spouse = primary beneficiary**
- **children receive annuity *only if* spouse can't (pre-55 remarriage or death) *and* they are still eligible**
- **child cost is based on ages of member, spouse & youngest child**
- **cost of child coverage - very low**
- **child cost stops when no elig**

# “Child(ren) Only” Option

- **eligible until 18, or 22 if full-time, unmarried student**
- **unmarried incapacitated child - eligible forever (if condition was incurred pre-18 or 22)**
- **cost based on ages of member & youngest child**
- **all eligible children covered at one cost**
- **cost stops when no eligible children remain**
- **cheaper than “spouse” due to finite benefit**
- **costlier option than child when with spouse since child is primary beneficiary**
- **annuity divided equally among all eligible**

# *Advice--Seriously Consider Child Coverage!*



**Q: Why bother to cover my 21-year old son who graduates from college soon?**

**A: Because….**

- **incapacitation may occur while still eligible**
- **“closing” the child category when there are eligible children closes it <u>forever</u>**
- **family complete? perhaps a step-,**

# "Insurable Interest" Option

- **Who Can Elect:** unmarried Soldiers with no or one dependent child
- **Eligible Beneficiaries:** relative more closely related than cousin; or business associate w/financial interest in soldier (proof needed)
- **Base Amount:** Must be full retired pay
- **Cost:** 10% + 5% for each full 5 yrs younger beneficiary is than Soldier
- **Benefit:** 55% of retired pay *less* SBP cost
- **Disability Retirement:** Eff. 24 Nov 03, if retired for disability and death occurs within one yr of ret for a cause related to a disability for which retired, Insurable Interest election is invalid -- unless made for a dependent authorized a military ID card. Premiums paid will be refunded to designated beneficiary.

  Note: Does not apply to length of service

# “Insurable Interest”
## ***Example***

**Retiree Age: 45**

**Beneficiary Age: 32**

**Retired Pay: $1000**

**Cost: 20% of $1000 = $200**

**(i.e. 10% + 5% for each full 5 yrs younger)**

**Annuity: $440**

**(i.e. $1000 - $200 = $800 X 55%)**

*** Note: may cancel coverage at any time**

# Former Spouse "Particulars"

- **FS coverage can be:**
  - **purely voluntary**
  - **incorporated into a written agreement**
  - **court-ordered**
- **Condition: FS must have been the formerly-covered spouse if divorce occurs after retirement**
- **Action Required Within 1 Year:**
  - **By Retiree: provide DFAS-CL divorce decree plus *written request* to change coverage**
  - **By FS: provide DFAS-CL divorce decree plus *written request* for a deemed election**

# Former Spouse (cont'd)

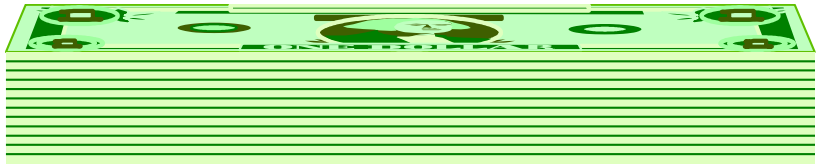
- **Precludes "spouse" coverage forever*-- even if FS becomes ineligible through remarriage pre-55**
- **Payments are suspended when/if FS is ineligible but resume when/if eligibility is reinstated**
- **FS & Children: includes only children of the marriage to the FS (no subsequent children)**

***FS coverage can be changed if court order is amended or vacated by FS's death**

# No Beneficiary at Retirement?

- Keep SBP literature
- Keep “Echoes” -- RSOs’ ph. nos. listed
- Contact nearest RSO for a new briefing as soon as eligible beneficiary is gained
- Decision whether or not to enroll new family members MUST be made within one year of gaining them
- New spouse becomes eligible at 1-yr anniv.
  - (costs do not begin until then)

# Base Amount



- amount of retired pay (in dollars) participation is based on
- minimum, by law = $300
- maximum, by law = full retired pay
- may choose any $$ amount between

# SBP Cost Formula

***(Spouse Only)***

Formula:

- 6.5% of base amount selected
- cost lowered in Mar ‘90

**Examples:**

- **Base Amount: $1000 $2000 $3000**
- **Cost (6.5%) $ 65 $ 130 $ 195**
- **Annuity provided: $ 550 $1100 $1650**

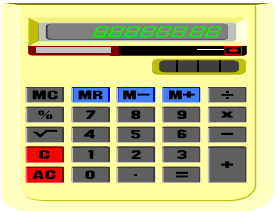
# Sample SBP Costs

**(Ages: Member=44; Spouse=41; Youngest Child=12)**

***Monthly Cost***

| Base Amount | Spouse Only | Spouse & Child | Child Only Amount |
|---|---|---|---|
| $4000 | $260 | $260.72 | $13.60 $2200 |
| $3000 | $195 | $195.54 | $10.20 $1650 |
| $2000 | $130 | $130.36 | $ 6.80 |

# SBP's *Real* Cost



| | NO SBP | SBP |
|---|---|---|
| Retired Pay | $2,000 | $2,000 |
| SBP Cost | $ 0 | $ 130 |
| Taxable Pay | $2,000 | $1,870 |
| Tax Paid (28%) | $ 560 | $ 524 |
| Annuity | $ 0 | $1,100 (pre-62) |
| | | $ 700 (post-62) |

*** This non-participant actual "pays" $36/mo in the form of unrealized tax savings - survivor gets $0.**

# Can I Tailor SBP To Meet *My* Needs? Yes....Think "Base Amount"

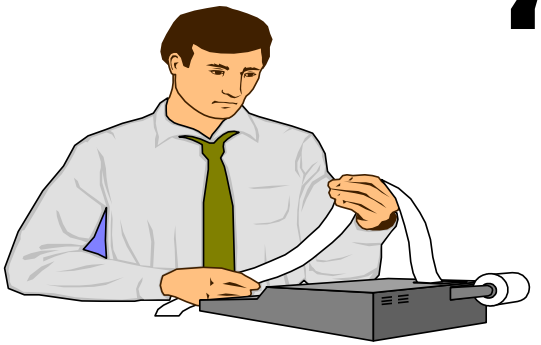
**Challenge:** What base amount should I cover to meet our needs?

**Solution:** Divide the goal amount by 55%.

**Examples:**

$2000 annuity -- choose $3636 as base

$1000 annuity -- choose $1818 as



# "Threshold" Amount

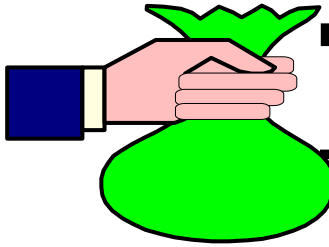
- portion of base amount which costs 2.5%
- indexed annually to AD pay raise(s)
- $616 (as of 1 Jan 05)
- instead of a $300 base, cover $616 at 2.5%

| | Base Annuity | Cost |
|---|---|---|
| Threshold | $616 | $15.40 |

# "30-Year Paid-Up Provision"

- effective 1 Oct 2008
- no further cost (but annuity payable) *after…*
  - 30 years of paying Premiums…

    **AND**
  - reaching age 70
- applies to specific categories & covered base amounts



# The Annuity

**Amount:**

- **Currently two-tiered**
  - **-- 35% of base amount (post-62)**
  - **-- 55% of base amount (pre-62)**
- **1 Oct 05 to 31 Mar 08**
  - **-- incrementally increases over 3-1/2 years from 35% to 55%**
- **1 Apr 08**
  - **-- 55% of base amount**

# ***Life's Two Certainties?***

**Civilians:** death & taxes

**Retirees/Annuitants:**

3**--Can't outlive retired pay**

**4--Can't outlive SBP annuity**

# SBP POSITIVES

- Government-subsidized plan
- Tax-free premiums
- Inflation-adjusted annuity
- Level-term plan (55%) as of Apr 08
- Flexible:  can terminate between ret years 2-3
- “Paid-up” after 30 years premiums + age 70
- Cannot outlive annuity
- Age, health, smoking, sex, lifestyle -- not considered
- Cost in today’s dollars; benefit in tomorrow’s dollars
- Can only be changed by Congress
- Income safety net; peace of mind
- Every active duty Soldier enrolled at no cost from day one

# SBP's *"Perceived"* NEGATIVES

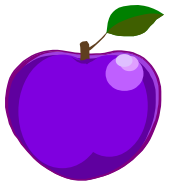
- Annuity is taxed to survivor
- Premiums not returned if spouse dies first
- Retired pay reduced because of SBP costs
- Cost increases with COLA
- No inheritance provision
- No cash value; can't borrow against it
- Too complicated to understand

# *CONSIDER….*

**REFERENCE: LIFE INSURANCE**

***"No other product in our economy that is purchased by so many people for so much money is bought with so little understanding of its actual or comparative value."***

# 4 Main Points When Comparing SBP to Life Insurance



- It takes a **surprising** amount of insurance to do for the spouse what SBP will (based on averages).
- It will take **a lot more** insurance if the spouse outlives the retiree by the longest period of time.
- The amount of insurance needed over time **rises due to inflation**.
- Even though insurance may appear to be an inexpensive “alternative” *at retirement*, it’s **harder to obtain & increasingly expensive** as you age.

# Replacement Value of Annuity

**Pay Grade: O5** **Ret Pay: $5000**

**Member's Age: 43**

**Spouse's Age: 42**

| Age at Death | Annual After-Tax SBP Annuity | Replacement Value of SBP* |
|---|---|---|
| 43 | $29,700 | $778,844 |
| 53 | $38,907 | $883,448 |
| 63 | $52,287 | $947,401 |
| 73 | $70,270 | $913,321 |

# Replacement Value of Annuity

**Pay Grade: E8** **Ret. Pay: $3000**

**Member's Age: 43** **Spouse's Age: 42**

**Annual After-Tax**

| Age at Death | SBP Benefit | Replacement Value of SBP* |
|---|---|---|
| 43 | $17,820 | $433,516 |
| 54 | $23,344 | $487,644 |
| 64 | $31,372 | $506,,232 |
| 74 | $42,162 | $473,925 |

*Face value of insurance needed to equal SBP benefit.

Note: Does reflect recent legislation that increases the post age 62 annuity to 55% effective 1 Apr 08

# Proceeds--
# How Long Do They Last?

**(Ret Pay = $5000; Life Insurance = $350K**

| Death Year | Spouse Age | Insurance Proceeds | After Tax SBP Benefit |
|---|---|---|---|
| 2006 | 42 | $350,000 | $29,700 |
| 2008 | 44 | $323,741 | $31,635 |
| 2015 | 51 | $182,016 | $38,967 |
| 2020 | 56 | $ 2,986 | |

- Spouse's expected age at death 86
- Years without insurance proceeds 30

**Note: Does reflect recent legislation that increases the post age 62 annuity to 55% effective 1 Apr 08**

# Life Insurance Proceeds-- How Long Do They Last?

**(Ret Pay = $3000 Life Insurance = $250K)**

| Death Year | Spouse Age | Insurance Proceeds | After-Tax SBP Benefit |
|---|---|---|---|
| 2006 | 42 | $250,000 | $17,891 |
| 2008 | 44 | $240,632 | $189,991 |
| 2016 | 52 | $163,277 | $24,044 |
| 2021 | 57 | $ 68,622 | |

- Spouse's expected age at death **82**
- Years without insurance proceeds **25**

**Note: Does reflect recent legislation that increases the post age 62 annuity to 55% effective 1 Apr 08**

# You Be the Judge -- Who Was Responsible?

**(Widow's letter of appeal to HQDA, 21 Sep 95)**

**"I think I should be able to receive my husband's Army pension to assist me in my everyday living expenses. He served this country for 20 years...in the Korean War & WWII. He was the recipient of the Purple Heart. ....If he were alive today he would still be receiving his pension. I feel it only right that his widow should receive the pension when a man serves his country as faithfully as my husband did...He served when he was called and I served right along beside. It is unjust to just push the spouse aside and make them feel they don't count. It**

# One Young Widow's View

**(actual letter)**

**"….each day I thank my late husband for his taking SBP….it allows me to live with decency and independent of others….the utility bills have not changed with the loss of my husband….minor home repair and car maintenance now must be done by others and it becomes a major burden…. the loss of a partner impacts on the objectivity of spending money, especially for major items…the life insurance was**

# SBP Endorsement

“We endorse SBP because we feel it is in the best interest of the retiree. We have examined SBP very carefully and concluded that SBP does what it is designed to do better -- and with less risk -- than any alternative we, or any other company could devise.”

**(USAA)**

# DoD Actuary's Advice to Retiring Male Soldiers

**"Male soldiers can't go far wrong taking the maximum SBP. The situations for them where the threshold amount of SBP is not worth it are rare. The older you are, the more you want SBP. The younger your spouse is, the more you want SBP. The worse your health is, the more you want SBP."**

# DoD Actuary's Advice to Retiring Female Soldiers

**"….I cannot, in good conscience, advise *all* female retirees that it is always a good financial decision to take maximum SBP. If you are approximately the same age as your husband, taking SBP is a relatively better choice than if you are 6 or 8 years younger. However, I think female retirees would be very foolish not to take the time and effort to find out what the valuation software**

# HQDA's Advice To <u>All</u> Retiring Soldiers

**"Do not forfeit SBP without having full knowledge of what you are giving up."**

***(Chief, Army Retirement Svcs)***

***For More SBP Information….***

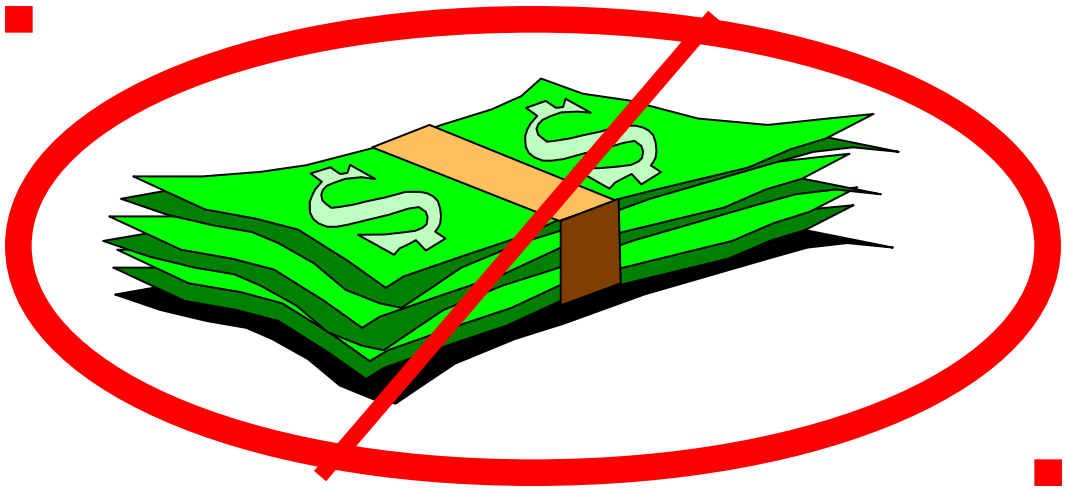
***Log on to:***

**http://www.armyg1.army.mil/retire**

***Contact:***

**your nearest Retirement Services Officer (RSO)**

# RETIRED PAY STOPS



# WITH THE DEATH OF THE RETIREE!